

STATEMENT OF SENATOR JOHN McCain
CHAIRMAN, SENATE COMMITTEE ON
COMMERCE, SCIENCE, AND TRANSPORTATION
FULL COMMITTEE HEARING
ON TELECOMMUNICATIONS MERGERS
NOVEMBER 8, 1999

Good morning. Today the Commerce Committee meets to examine the implications of the wave of megamergers taking place in the telecommunications industry.

Let me thank our witnesses for agreeing to share their perspectives with us this morning.

Our first panel will consist of our government witnesses, William Kennard, Chairman of the Federal Communications Commission, and Robert Pitofsky, Chairman of the Federal Trade Commission.

Following their testimony a second panel will present the views of a cross-section of nongovernment interests. Representing the telecommunications industry are Mike McTighe, Chief Executive Officer, Global Operations, Cable & Wireless; and John Sidgemore, Vice Chairman, MCI/Worldcom.

Scott Cleland, Managing Director, Legg Mason Precursor Group, and Paul Glenchur, Director, Charles Schwab Washington Research Group, will represent the investment community on this second panel. And Gene Kimmelman, Co-Director, Consumers Union, will testify to the interests and concerns of consumers, as he has so capably done in virtually every telecommunications hearing I have held since I became Chairman of this Committee.

Welcome to you all. We look forward to your views and to your responses to our questions.

Let me briefly set the stage for why we are meeting today. Anybody who pays attention to the headlines can reel off a list of recent telecom industry megamergers: SBC-Ameritech, Bell Atlantic-NYNEX-GTE; US West-Qwest; MCI-Worldcom and MCI-Worldcom-Sprint; Time Warner-Turner; and, of course, AT&T-TCI-Media One.

Huge as these deals are, they represent only a fraction of the consolidation that has taken place in the telecommunications industry. As Chairman Pitofsky notes in his written testimony, since 1995 the number of telecom mergers filed for government approval has increased almost 50 percent, and their combined dollar value has increased eightfold.

Why the sudden urge to merge? Part of the credit goes to the 1996 Telecommunications Act. By redrawing the ownership and competition rules that govern the industry, it has created incentives,

both intended *and* unintended, for companies to merge. Also powering these mergers are the growing globalization of commerce, the advent of digital convergence, and the general state of the American economy. As a result of all these factors, telecommunications companies are restructuring to align themselves to better compete using one of two alternative business strategies. Some are focusing on strengthening their position in one specific “core” market, while others are expanding to compete in new markets.

Either way, most Americans tend to view increased concentration of control as a negative, and, unfortunately, this is often the case -- at least for the average consumer. For while merging industries enjoy the cost-saving benefits of increased efficiency, the average consumer doesn’t always reap the benefits of lower prices and better service.

These worries are already apparent in the context of telecommunications mergers. We worry whether increasing consolidation in the radio broadcasting industry will homogenize radio programming. We worry whether Bell Company mergers will ultimately create only two surviving companies, Bell East and Bell West. And we worry whether AT&T will be reincarnated as Ma Cable, dominating the markets for voice, video, and high-speed data services.

There is another valid reason why we disfavor undue industry concentration. The more industry becomes consolidated, the harder it is for new companies to enter the market, or for small companies already in the market to survive. This challenges a bedrock principle of our free enterprise system -- that every business should have a fair opportunity to enter the market and to succeed or fail based on initiative and hard work. And if small businesses cannot compete in the telecom market in the Information Age, what stake will small businesses have in our economy as a whole?

Unfortunately, these valid concerns sometimes prompt the wrong responses. For example, government sometimes confuses the notion of “leveling the playing field” with “reconstructing the stadium”: that is, instead of making sure that incumbent firms can’t exercise the power to *eliminate* competition, government sometimes tries to deprive incumbent firms of virtually *any* advantage of incumbency. Similarly, in an attempt to preserve ownership opportunities, government tends to retain outmoded ownership restrictions, or adopts regulations creating new services that the market does not need, and will not support.

Have we reached the point at which further industry mergers should be regarded as unthinkable? If not, what different standards, if any, should apply to telecom industry mergers in the year 2000 and beyond, as the industry becomes more concentrated? Who should apply these standards, and do they become harder, or easier, to articulate and enforce?

And finally, of course, there is the most most important question of all: exactly who is being benefitted by these mergers, and what more must we do to assure that *all* Americans can enjoy these benefits?

And so the Commerce Committee meets today, to examine where the current trend of telecom mergers is taking the industry, what it all means for small businesses and for the average consumer, and what government's response should -- and should not -- be.